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Cop-on to the Risks of Buying Abroad

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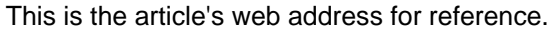
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Cop-on to the risks of buying abroad

Overseas

investment is something to be approached calmly and with a big appreciation of risk, writes

Lorcan Sirr

Back in the 1929 the shoeshine boy gave Joseph Kennedy financial advice, and he got worried.

Nowadays, there are a lot of shoeshine boys dispensing homespun advice, but very few appear worried. People are investing heavily overseas with little or no appreciation of the fundamentals.

For when overseas property is concerned, all sense of reason goes out the window. Show an Irish person a brochure depicting a white-walled apartment under a foreign sun, point out photographs of a nice central European

cityscape, or perhaps a beach, wooden floors, and maybe a balcony; then throw in words like "high yield", "guaranteed rent" and "direct flights" and you can nearly see the brain cells flow from the cranium and march out the door. The eyes widen, the money begins to smoulder in the pocket and, before we know it, another apparently smart person has just wasted that BComm from UCD.

Trawl the financial advice websites and you'll find plenty of people online asking for advice on overseas property investment. But equally, there are also many people

regaling the nation with their tales of woe. Cry as you read of deposits lost, empty investment properties, exorbitant legal fees, and unforeseen taxes. It's depressing. And these are only the ones who have the courage to put their heads above the parapet and admit their losses. For each that does, there are many more who have lost thousands and remain silent.

So, what is the problem with overseas property investment? If it's done right, nothing. You have some spare cash, and feel that some more can be made through buying a property in a foreign clime. Purchase an apartment in that old favourite Spain – where, did you know, you pay tax on an assumed rental income whether it is rented or not? – and sit back and enjoy the income and capital appreciation. Maybe even use it yourself a couple of times a year. Handy for the golf course, invite the brother-in-law. You get the picture.

But the crucial point about property investment is risk. Yields that we hear so often quoted, but which very few lay-investors understand, is a measure of risk, and the higher the yield quoted, the higher the risk to that property of being a poor investment.

It's like the difference between the share price of Mastercard at €60 and that of a newly floated company at €2. Mastercard will generate a lower yield, or return, but is 30 times less risky. It has been around for a long time, and in all eventualities will be, which is why you pay more for their shares.

Professional property investors like to mitigate and manage their risk, and we should be thankful, for they are usually managing our pensions, which are frequently tied up in property. But how can an ordinary, lay-investor manage risk in their overseas property investment? The answer is with great difficulty, as risk lies mostly outside their control.

For a start, the Irish economy progressing nicely is no indicator as to whether the investment country of choice will do well. Can you take the hit if their economy collapses and there is an empty, non income-generating investment to pay for?

The stability of an economy is often tied up with the stability of the government. How many riots or protests have to happen before nerves set in about an investment's future? Witness the jittery Irish

investors in Hungary after the recent anti-government protests. In fairness to Hungary, it is a relatively stable country. The less stable the country, the less it takes for a property market to collapse, but the cheaper the investment in the first place. Think Moldova, for example, or Belarus. Again, it's all about risk.

What about overseas investment properties advertised as being close to an airport, or as having a direct flight from Ireland? But what will happen if the direct flight stops, or if it is no longer possible to fly there at all? The answer is obvious, but then ask, who controls the future of these flights, and the reply is closer to a Michael O'Leary, CEO Ryanair, Dublin Airport, than to a Michael O'Leary, two-bed overseas property owner and teacher, Co Roscommon.

Sitting in a livingroom in Ireland, hundreds if not thousands of kilometres away from an investment, is a difficult way to manage risk. Throw a different language and often a different currency into the mix and the ability to manage this risk is rapidly diminished.

At its most basic, overseas property investment is a bit like a concrete version of buying stocks and shares, and you wouldn't buy €150,000 worth of shares without doing some pretty in-depth research. So why is it people spend so much money without understanding the basics? If it all goes wrong, I cannot see the Government bailing out investors, and rightly so. Remember their response to Eircom's shares in 1999?

Overseas investment is something to be approached calmly and with a big appreciation of risk. Unfortunately, that is advice which often can't compete with shoeshine boy philosophy, and bundles of euro burning holes in trouser pockets, itching to buy into a "high yield" (higher risk), "guaranteed income" (no such thing) overseas investment on a "direct flight" (at whose direction?).

Measure the risk carefully, or you could end up with a new career. I hear there's money in shining shoes.

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